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SUBJECT: PM AT THESSALONIKI: "RE-INVENTING THE GREEK STATE
AND SEEKING ECONOMIC GROWTH"

REF: ATHENS 1494

11. (U) Summary: At his September 10 speech at the international trade fair in Thessaloniki, the Greek equivalent to an annual State of the Union address, Prime Minister Kostas Karamanlis revealed the two main axes of his administration's policies: "Re-inventing the state" and "seeking economic growth" Within this context, Karamanlis enumerated the key issues facing the public and private sector as Greece looks to the future, as a nation, a member of the EU, and as a part of the international community as a whole. The evening before, Karamanlis outlined his goals for northern Greece, which centered on a "Strategic Development Plan" in the high-tech sector.

12. (SBU) Summary Continued: Karamanlis' speeches, which were general in nature, did not break new ground, but neither did they walk away from the GoG's commitment to key economic reforms. Karamanlis announced no new public spending goodies for the voters (as had been traditional for this speech) and pledged no obeisance to the "European social model." In fact the speech was frank in acknowledging that "difficult and unpleasant decisions" lay ahead. The PM also explicitly posed Finland, Ireland and Denmark as economic policy models, explaining that reforms in these countries had yielded "astounding results." The key, as always, will be whether the PM can retain sufficient support both public and political, to implement the reforms. End Summary.

Re-Inventing the State

13. (U) The Prime Minister stuck to his well-known themes of structural reform, fiscal rehabilitation, and an end to government handouts. Karamanlis limited any suggestion of social rewards to a vague suggestion that general tax relief might be possible in 2007. The PM underlined efforts to re-invent the state and focused on the rehabilitation of the public sector, particularly of public enterprises in the utility sector. He emphasized the GoG's decision to enhance supervision and introduce corporate management principles to all public sector enterprises in order to promote efficiency. He was firm that newly hired personnel in public enterprises would no longer enjoy permanent employment status (following the example of the recently introduced labor scheme in the Telecommunications Organization (reftel)). Karamanlis stressed the need to bring government spending under control, but mentioned few specifics other than restraint of defense spending. According to the PM, this spending, which totaled 4.1 percent of GDP in the period 1999-2003, will be limited to 2.96 percent from 2005-2006.

14. (U) Despite his firmness on labor issues, however, he avoided any specifics on the much needed social security reform, only referring to "future solutions" following a dialogue with social partners.

Economic Growth

15. (U) Karamanlis also unveiled the GoG's privatization program for the next year. The government intends to sell shares of the Athens International Airport, the Postal Savings bank, and various state-owned ports. (GoG will maintain 30-35% ownership of each however.) He also reiterated the opportunities offered by the establishment of joint ventures between public and private sector companies in major projects in the country such as public/private partnerships in the natural gas and oil sectors (DEPA natural gas trunk pipeline to Italy and the proposed Burgas-Alexandropoli crude oil Bosphorus bypass).

16. (U) Regarding the future of ailing national carrier Olympic Airlines, Karamanlis tried to prepare public opinion for a possible closure of the company adding, however, that "no employee will find himself on the street."

Press and Labor Reaction

17. (U) The Prime Minister's speech at the opening of the Fair as well as the press conference that followed on Sunday received extensive press coverage with the pro-government papers focusing on his realistic appraisal of the country's

economic problems and the opposition papers decrying his lack of sensitivity for lower-income families and the absence of any sort of relief measures.

18. (U) Greek labor unions showed their disapproval of the government's policies by staging protest rallies throughout the events in Thessaloniki during the weekend (reftel). Although expected, Karamanlis' announcement of the abolition of lifetime employment for newly-hired personnel in public enterprises has led the labor unions to protest the government as "anti-labor," criticism certain to continue in the coming weeks. The opposition in its entirety sharply criticized the Prime Minister, accusing him of breaking pre-electoral promises and forcing lower-income Greeks to bear the brunt of new austerity measures.

Northern Greece: New Opportunities

19. (U) The Thessaloniki Trade Fair was also an opportunity for the Prime Minister to re-connect with his base in northern Greece. In addition to his keynote speech on the national economy, the PM focused his address the prior evening on a strategic vision for northern Greece, a region of growing geopolitical and economic importance on the frontline of EU enlargement and Greek investment in the Balkans. He cited the upgrading of the Macedonia-Thrace Ministry and the transfer of trans-border EU Inter-regulatory Programs office to Thessaloniki as evidence of his concern for the region.

Northern Greece: New Strategies
and Commercial Opportunities

10. (U) Karamanlis said a "Strategic Development Plan" for northern Greece focused on technology, innovation and competitiveness would be announced by year's end to include an innovation zone in Thessaloniki (under discussion for more than a year), and announced the creation of an "International University for Southeast Europe." Northern Greece is poised to become an international energy hub, the PM noted, with the construction of the B-A oil pipeline; Greece-Turkey-Italy gas pipeline; and interconnection of electrical grids, totaling 1.5 billion euros in investment, and with the establishment of the "Energy Community of SE Europe." The Prime Minister also gave a status report on major public works in northern Greece: completion of the Egnatia highway by 2008; completion of bids for the Thessaloniki metro, airport runway extension and other projects; long-delayed funding for expansion of the Thessaloniki Port and the establishment of an international logistics center; enhancement of the railway network; and environmental projects, among others. Karamanlis recommitted himself to implementation of the national strategy for regional development as a basic priority and announced the expansion of citizen service centers in northern Greece, restructuring of the Thessaloniki police and hospital modernization.

Reactions to the Northern Greece Plan

11. (U) Local media reaction was mixed, with predictable headlines in opposition press. Most of the PM's program for northern Greece was not new and he did not commit to firm timetables for infrastructure works but committed to stay the course. Northern Greece business leaders credit the Prime Minister for steering regional development in the right direction, focusing on technology and innovation and Balkans investment, despite some disappointment with the new development law, which does not include any additional investment incentives for northern Greece.

Comment

12. (U) While the PM did not break any new ground in Thessaloniki, he also did not retreat from ND,s core economic plan: limiting new social expenditures and privileges, increasing revenues, and continuing privatization efforts. Unlike the preceding government, Karamanlis also did not use the Trade Fair to bolster public support with concessions to politically influential groups such as labor unions. Instead, he presented a pragmatic picture of Greece's current economic difficulties and some of the pain that EU-mandated austerity measures have in store for the country. Embassy believes that the PM certainly has a coherent vision, but many challenges lay ahead in converting Greece's bureaucratic and statist economy to a mediterranean version of Ireland.

13. (U) This is a joint Athens/Thessaloniki telegram.
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